

# BELARUSIAN MONTHLY ECONOMIC REVIEW



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- New trends in Belarus-US relations.
- Growth of inventories in major industry branches.
- Belarus took commitments on structural reforms.
- The Fund of National Development is to be formed in 2009.

## Politics: New trends in Belarus-US relations

In June, President A. Lukashenka met with a delegation of the US Congress, consisting of members of the Democratic and the Republican party. During the meeting A. Lukashenka paid prior attention to the issues of the economic cooperation and stated about the willingness to develop bilateral trade and attract American corporations to investment projects in Belarus. He also touched the issue of restoring full diplomatic attendance between countries. He stated that Belarus is ready for this, but sees cancellation of the economic sanctions and the American "Act on Democracy in Belarus" as preconditions for this step. American congressmen stressed the importance of the improving situation in human rights sphere and democratization in public sphere for the development of the bilateral relations. Just after the meeting A. Lukashenka signed an Edict, due to which American lawyer E. Zeltser was freed and which may be assessed as an act of goodwill towards the USA. The fact of the meeting at the high level itself and its results might determine trends of improvements in bilateral relations and weakening economic sanctions from the US side, even leading to their cancellation. However, these improvements are likely to be gradual and the American side is likely to develop further political relations keeping on the "Act on Democracy in Belarus".

## Real sector: Growth of inventories in major industry branches

In Jan-May, real GDP grew by 1.4% yoy (1.2% yoy in Jan-Apr). The acceleration of growth was due to increased growth rate in agriculture (from 6.6 up to 6.8% yoy) and a more moderate development of the recession in industry (from -3.6 up to -3.4% yoy). However, the growth decelerated in retail trade, and in transport branch the recession became deeper. From the demand side, investments that in Jan-May grew by 18.9% yoy still were the only factor of growth (the consumption is stagnating, while the drop of exports is bigger than those of imports).

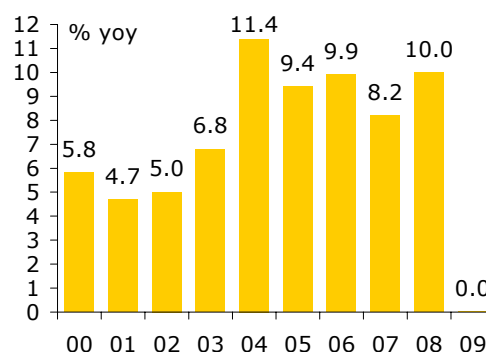
In industry, growth took place in two branches – fuel (due to oil-refinery, which grew by 21.3% yoy) and chemical and petrochemical (due to the chemical industry, which grew by 43.6% yoy). A rapid growth in chemical industry was entirely due to increase in production of varnish-and-paint goods by 7.7 times yoy (since the middle of 2008 a couple of Belarusian enterprises started this production based on Russian raw materials with further exports to Russia). Furthermore, the recession in the food industry seems to have been finished, since it grew by 0.9% yoy. However, in major industries – machinery and metal-working, ferrous metallurgy and light industry – the situation is still difficult and an increase in inventories can be observed (by more than 10% of the output in 2009).

## Structural trends: Belarus took commitments on accelerating privatization and other structural reforms

In June, the Executive Board of the IMF approved a decision on expanding the financing to Belarus within the Stand-By Arrangement by SDR 651.4 m (about USD 1 bn). The IMF mentions that expanding the financing became possible due to a couple of commitments in the sphere of the structural reforms took upon itself by the Belarusian government. In

**Population: 9.67 m**  
**Industry / GDP: 28.1%**  
**Agriculture / GDP: 8.4%**  
**Investment / GDP: 27.9%**  
**Export destination: Russia 32%, EU 44%**  
**Import origin: Russia 60%, EU 22%**

**Real GDP growth**



Source: Ministry of Statistics and Analysis. Forecast for 2008: IPM Research Center.

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this field, the IMF pays a prior attention to privatization. According to the head of the IMF Resident Representative Office in Belarus N. Koliadina, the parties agreed on establishment of the Agency on privatisation and perfection of the correspondent legislation. Some mass media reported that the Agency should select 5 large state enterprises for privatisation under international consultant control and the deal should be accomplished by February, 2010. According to the schedule of the Stand-By Arrangement, the provision of the last tranche of the IMF loan is planned just for this month, based on the review of the previous stages. Hence, it might be supposed that provision of the last tranche of the loan – under the condition of the huge current account deficit it seems crucial for macrostabilisation – will depend on the policy of the Belarusian authorities on the privatization scene. In the beginning of July, the government amended the plan of privatisation till 2011, having included two large state banks – Belinvestbank and BPS-bank that were stated eligible for privatization many times before – and doing other slight changes. However, the expediency of the huge privatization during the global crisis may seem questionable, both from the view of most efficient owner and from the fiscal view. Hence, the perspectives of rapid and large privatization in Belarus are not evident. However, the IMF takes into account other structural reforms directed at reduction of price and wage controls, remove of the mandatory targets on production and employment for private enterprises. Accomplishment of such measures may be more effective in current conditions both for macrostabilization and long-term development.

#### Foreign trade: Protectionist measures by Russia

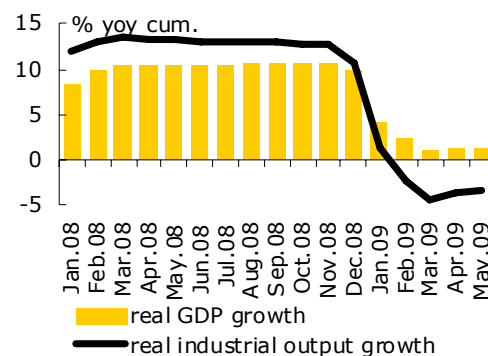
In Jan-Apr the merchandise deficit amounted to USD 2.6 bn (18% of GDP), having increased by 1.9 times yoy. The drop of exports (by 48.6% yoy) was still much higher than those of imports (by 32.9% yoy). Average prices of exports dropped by 31.4% yoy, while those of imports by only 20.3% yoy. Alongside, physical volumes of exports and imports decreased by 25.1 and 15.8% yoy correspondingly. The hugest decrease of exports prices took place in trade with non-CIS countries (by 36.2% yoy) mainly consequent to the decrease of prices on oil products and ferrous metals. The deepest decrease of physical volumes in trade with non-CIS countries was peculiar to trade with potash fertilizers (by 4 times yoy). Because of price tensions for Belarusian potash fertilizers, among 27 countries that purchased it in 2008, only 12 of them keep it on in 2009. Even under optimistic scenario, it is unlikely that in 2009 the volume of exports of the fertilizers will be comparable to those of 2008.

In trade with Russia, the trade deficit reduced by 32.6% yoy and achieved USD 2.9 bn. The problems of Belarusian producers at Russian markets are strengthened by protectionist measures. After the milk conflict calmed down, the Russian side made a couple of accusations of the supply of the Belarusian agricultural machinery at dumping prices. In its turn, Belarusian authorities turned to use protectionist measures themselves. In June, an Edict was published that raises for 9 months the custom duties on trucks and buses from 5-10% up to 25-50%. However, the effectiveness of this measure is doubtful, since the major part of the merchandise deficit is formed due to intermediary, but not investment imports.

#### Public finance: Formation of the Development Fund

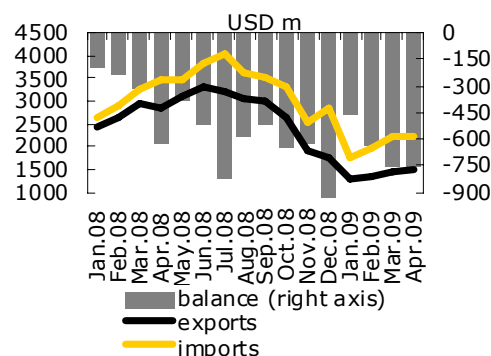
Consolidated revenues in Jan-Apr amounted to 47.8% of GDP, having decreased by 8.3 percentage points in comparison to Jan-Apr 2008. Consolidated expenditures decreased much less – by 1.1 percentage points – and amounted to 47.7% of GDP. Finally, in Jan-Apr a slight surplus of 0.1% of GDP took place (7.3% of GDP in Jan-Apr 2008).

#### GDP and Industrial Output



Source: National Statistical Committee.

#### Merchandise Trade



Source: National Statistical Committee.

#### Monthly Dynamics of Merchandise Trade (USD, m) and Coverage Coefficient\*

	Russia	Non-CIS countries	Coverage coefficient, %
Jan	-650.5	183.1	28.1
Feb	-655.1	-48.0	--
Mar	-780.2	-27.4	--
Apr	-796.3	-33.2	--
Jan-Apr	-2882.1	74.5	2.5

\* - relationship of the surplus of trade with non-CIS countries to the deficit of trade with Russia, %  
Source: National Statistical Committee.

Despite the financial stance of the enterprises is deteriorating, in 2009 the Fund of the National Development was formed at the expense of the previous year profits of the large state enterprises. Their payments to the Fund should amount to BYR 404.6 bn (0.3% of the 2008 GDP), while in the previous year the correspondent volume of the Fund was 0.5% of 2007 GDP. The major contribution of 66.1% of this sum, similar to the year before, belongs to Belaruskaliy. However, oil-refinery enterprises have been freed from these payments; despite in 2008 their financial stance was relatively good.

### Monetary policy: Deceleration of crediting

In May, net foreign assets of the monetary authorities reduced by 6.2% mom (by USD 214.4 m). Alongside, some inflow of the ruble liquidity took place due to withdrawal of the government's ruble deposits at the NBB (decrease by 33.6% mom). Finally, in May base money reduced by 6.6% mom, while in annual terms it reduced by 13.3% yoy (3.6% yoy in April).

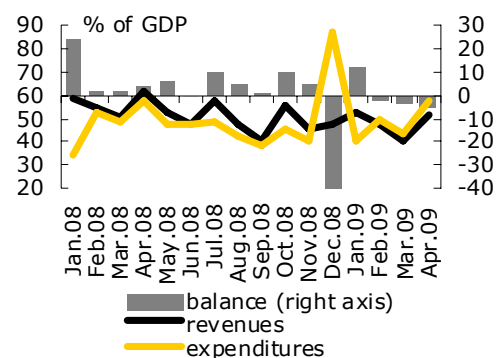
Restriction of money supply by the NBB led to deceleration of granting loans to the real sector. In May, outstanding loans to the real sector were reduced by 1.8 percentage points down to 52.2% yoy. The lack of resources substantially affects the decelerating of the credit boom. Since May, NBB has almost frozen its refinancing, while the government restricts placing its funds in deposits at the commercial banks. Hence, banks had to attract funds at the deposit market more actively, raising interest rates. In May, ruble interest rates were either raised or kept at a rather high level. At the same time, banks reduced interest rates in foreign currency according to the recommendation of the NBB. However, households who are the target group of this measure still preferred to save in foreign currency. The households' deposits in foreign currency grew by 112.9% yoy, while in national currency it dropped by 2.3% yoy. Furthermore, a decrease of the cash in circulation (by 10.2% yoy) at the background of decelerating growth of real money income took place. Finally, ruble money grew by 0.7% mom, while in annual terms it decreased by 3.5% yoy. Broad money grew by 0.5% mom and in annual terms by 19.4% yoy.

Consumer prices in May grew by 0.3% mom and in annual terms inflation amounted to 13.6% (14.7% in April). During May-June the value of the Belarusian ruble was within the target corridor to the NBB currency basket. As of June 30, its exchange rate was 2837 USD/BYR.

### Banking sector: Stimulation of the economy through concessional consumer loans

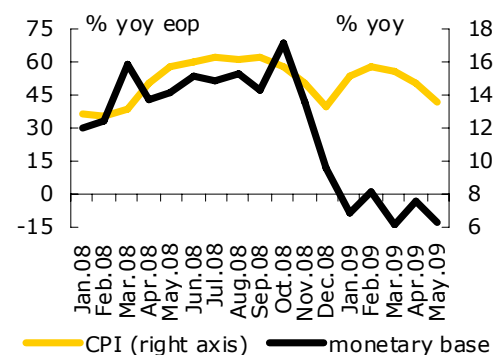
According to the President's Edict in 2009-2010 concessional consumer loans will be provided for households' with a low level of income. The function of providing such loans was assigned to four large state-owned banks – Belarusbank, Belagroprombank, Belinvestbank, BBS-bank. It is envisaged, that the government will compensate the difference between market and concessional level of interest rates through budget funds. It should be emphasized, that under the approved criterion of belonging to the low-income category (not more than BYR 1.1 m for each family member), the target group of this Edict is about 90% of the population. Hence, the prior task of this measure is stimulating the domestic demand through consumption. From this view, it might be effective in order to prevent a recession in the economy. However, artificial expanding of the domestic demand may finally cause the growth of the current account deficit. Furthermore, directive crediting hampers the banks' possibilities on crediting potentially more effective projects under the liquidity deficit. Thus, at the current stage the effectiveness of this instrument seems to be ambiguous.

### Consolidated Budget



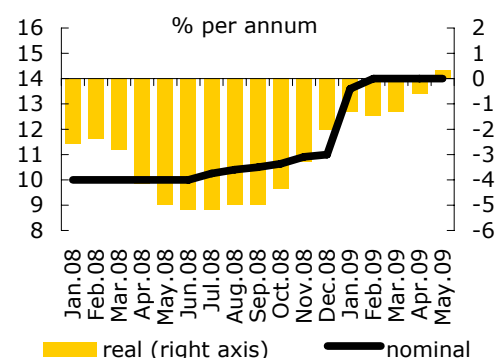
Source: calculations based on the National Statistical Committee data.

### Monetary Base and CPI



Source: calculations based on the National Statistical Committee and the NBB data.

### Refinancing rate



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Mar 09	Apr. 09	May 09
GDP growth	% yoy	8.9	8.4	7.3	10.9	10.1	11.2	7.5	1.1	--	--	
GDP growth	% yoy cum.	8.6	8.4	8.2	10.9	10.4	10.7	10.0	1.1	1.1	1.2	1.4
Industrial Production	% yoy cum.	7.7	8.2	8.5	14.7	13.0	13.1	10.8	-4.5	-4.5	-3.6	-3.4
Agricultural Production	% yoy cum.	5.2	5.6	4.1	6.8	5.4	6.9	8.9	6.3	6.3	6.6	6.8
CPI	% yoy eop	7.2	9.0	12.1	13.2	16.0	16.3	13.3	15.5	15.5	14.7	13.6
PPI	% yoy eop	13.6	16.8	17.1	13.5	16.2	18.5	14.2	21.4	21.4	19.2	16.5
Merchandise export (USD)*	% yoy	23.3	18.5	44.4	69.2	56.0	44.9	-11.6	-48.8	-50.1	-47.8	--
Merchandise import (USD)*	% yoy	23.7	23.8	42.4	56.5	55.3	53.1	-1.5	-32.0	-31.6	-35.3	--
Merchandise trade balance (NBB data)	USD m cum.	-1563	-2304	-3858	-647	-2049	-3835	-6104	-1779	-1779	-2496	-3081
Current account	USD m cum.	-1152	-1652	-2944	-433	-1411	-2920	-5049	-1866	-1856	--	
Current account	% GDP cum	-5.8	-5.1	-6.6	-3.6	-5.5	-6.6	-8.0	-18.2	-18.2	--	
International reserves	USD m eop	2344	2155	4182	4746	4618	4120	3061	3955	3955	3565	3238
Monetary base	% yoy eop	29	25	38	59	54	48	12	-14.2	-14.2	-3.6	-13.3
Lending rate**	% p.a. aop	11	12	12	11	10	11	14	17	16	17	16
Exchange rate (official)	USD aop	2145	2147	2152	2148	2136	2114	2147	2772	2845	2829	2778
Exchange rate (official)	EUR aop	2890	2948	3115	3215	3339	3183	2827	3614	3704	3732	3782

\* Growth rates in value terms (source: Ministry of Statistics and Analysis).

\*\* Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2002	2003	2004	2005	2006	2007	2008
Nominal GDP*	BYR trn	26.613	36.565	49.991	65.067	79.231	97.165	128.828
Nominal GDP**	USD bn	14.5	17.7	23.1	30.2	36.9	45.2	60.3
GDP Growth	% yoy	5.0	7.0	11.4	9.4	9.9	8.6	10.0
Industrial production	% yoy	4.5	7.1	15.9	10.5	11.3	8.5	10.8
Agricultural production	% yoy	0.7	6.6	12.6	1.7	6.1	4.1	8.9
CPI	% yoy aop	42.6	28.4	18.1	10.3	7.0	8.4	14.8
CPI	% yoy eop	34.8	25.4	14.4	8.0	6.6	12.1	13.3
PPI	% yoy aop	41.4	37.5	24.1	12.1	8.3	16.2	15.6
PPI	% yoy eop	42.7	28.1	18.8	10.0	8.5	17.1	14.2
Exports (gs, USD)	% yoy	9.8	24.4	35.7	15.8	21.8	24.3	35.5
Imports (gs, USD)	% yoy	9.0	25.1	40.3	3.0	33.0	27.9	37.6
Current account	USD m	-311	-424	-1206	510	-1512	-2944	-5049
Current account	% GDP	-2.1	-2.4	-5.2	1.7	-4.1	-6.6	-8.0
FDI (net)	USD m	453	170	163	303	351	1770	2143
International reserves	USD m	457	474	770	1297	1383	4182	3467
Fiscal balance	% GDP	-0.2	-1.6	0.0	-0.6	2.2	0.6	0.9
Domestic public debt	% GDP eop	5.4	5.5	5.7	5.8	6.5	6.4	6.7
External debt (total)	% GDP eop	27.0	23.7	21.4	17.9	18.6	28.4	24.6
Monetary base	% yoy eop	32	50	42	74	20	38	12
Exchange rate (official)*	USD aop	1784	2075	2160	2154	2145	2146	2136
Exchange rate (official)*	USD eop	1920	2156	2170	2152	2140	2150	2200
Exchange rate (official)*	EUR aop	1690	2353	2684	2681	2692	2937	3135
Exchange rate (official)*	EUR eop	1989	2695	2956	2550	2817	3167	3077

\* On January 1, 2000 the Belarusian ruble was denominated 1:1000. All figures for 1999 are given in 'new' Belarusian rubles.

\*\* For the period of 1999–2000, GDP in USD is calculated by using the market (unofficial) exchange rate (source: IPM Research Center).

Sources: National Statistical Committee, Ministry of Finance, NBB, IPM Research Center.

#### Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date